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**AUDITOR - GENERAL  
SOUTH AFRICA**

# **Engcobo Municipality**

## **Audit Report**

For the year ended 30 June 2017

# Report of the auditor-general to the Provincial Legislature and council on Engcobo Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Engcobo Local Municipality set out on pages ... to ... which comprise the statement of financial performance as at 30 June 2017, and the statement of financial position, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Engcobo Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2016 (Act no. 3 of 2016) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Restatement of corresponding figures

7. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error discovered during 30 June 2017 in the financial statements of the municipality at, and for the year ended, 30 June 2016.

## **Other matter**

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

9. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## **Responsibilities of accounting officer for the financial statements**

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
11. In preparing the financial statements, the accounting officer is responsible for assessing the Engcobo Local Municipality ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

12. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected Key Performance Areas (KPA's) presented in the annual performance report. I

performed procedures to identify findings but not to gather evidence to express assurance.

15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 2: Basic Service Delivery	x – x
KPA 3: Local Economic Development	x – x
KPA 5: Good governance and Public Participation	x – x

17. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

## Key Performance Area 2: Basic Service Delivery

19. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below as reported achievements were not supported by sufficient appropriate audit evidence. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of the following indicators:

Performance indicator	Reported achievement
Percentage of completion of Lower Gqaga Village 438 households by June 2017	Achieved, 100% of electrification of Lower Gqaga Village, 438 households is completed by June 2017

Percentage of completion of Mkonkotho Village 121 Households by June 2017	Achieved, 100% of electrification of Mkonkotho Village, 121 Households is completed by June 2017
Percentage of completion of Ntabomvu, Bombotho, Manzimdaka, Gubenxa, Nqancule and Gqutyini 137 Households by June 2017	Achieved, 100% of electrification of Ntabomvu, Bombotho, Manzimdaka, Gubenxa, Nqancule and Gqutyini, 137 Households is completed by June 2017
Percentage of completion of Ngxebe Village 535 households by June 2017	Achieved, 100% of electrification of Ngxebe Village, 535 households is completed by June 2017

20. The reported achievements of the indicator listed below was misstated, as the portfolio of evidence provided did not agree with the reported achievement:

Performance indicator	Reported achievement	Audited value
Percentage of completion of Quthubeni Access Roads (ward 13) by June 2017	80%	100%

21. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programmes:

- KPA 3: Local Economic Development
- KPA 5: Good Governance and Public Participation

### Other matters

22. I draw attention to the matters below.

### Achievement of planned targets

23. Refer to the annual performance report on pages xx to xx; for information on the achievement of planned targets for the year and explanations provided for the under / overachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 19 and 20 of this report.

### Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic service delivery; Local economic development and Good governance and public participation. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.



## Report on audit of compliance with legislation

### Introduction and scope

25. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
26. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements and annual report

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
28. The oversight report adopted by the council on the 2015-16 annual report was not made public, as required by section 129(3) of the MFMA.

## Other information

29. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's foreword, the audit committee's report and the municipal manager's overview as required by the MFMA. The other information does not include the financial statements, the auditor's report thereon and those selected Key Performance Areas presented in the annual performance report that have been specifically reported on in the auditor's report.
30. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
31. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected Key Performance Areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. No material inconsistencies were identified in the other information.

## Internal control deficiencies

32. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on

the performance information report and the findings on compliance with legislation included in this report.

- The municipality is not preparing interim financial statements and performance reports on a regular basis. Even though management is aware of the requirements of the Framework for Managing Programme Performance Information (FMPPI), the principles thereof were not applied. As a result the annual performance report was not reliable and material findings were identified and reported.
- There has been a regression in the record management system at the municipality as information that needed to be provided in support of the financial statements and performance information was not readily available.
- The municipality also has challenges in terms of keeping appropriate portfolio of evidence to support reported performance information in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information as achievements reported were not supported by valid portfolio of evidence (POE).

*Auditor General*

East London

30 November 2017



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SOUTH AFRICA

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## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected Key Performance Areas and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Engcobo Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.